
Dow Jones Newswires

First-Ever Smart Grid Tax Breaks Hitch Ride On Bailout Bill

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Of DOW JONES NEWSWIRES
820 words
9 October 2008
12:13
Dow Jones International News
English
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WASHINGTON (Dow Jones)--The U.S. Congress has provided its first-ever tax breaks for investments in a next-generation electricity grid, giving a lift to an industry that for years has struggled to win the federal government's help in dealing with costs.

Tucked into the \$700 billion bailout package that President Bush signed into law last week is a measure allowing utilities to write off more quickly investments in so-called smart meters or other smart-grid equipment. Worth \$915 million over 10 years, the tax treatment lets companies depreciate investments over 10 years instead of 20 years - in essence taking bigger deductions each year.

"It provides a little prodding to the utilities to get going," said John Berger, the chief executive of Standard Renewable Energy, a Houston company that installs smart-meter-based thermostats.

Cost has been an impediment as companies such as Xcel Energy Inc. (XEL), Duke Energy Corp. (DUK) and others seek to roll out the technology on a large scale. Smart meters, which replace the traditional meters located on houses, cost roughly \$120 to \$200 apiece. Amid consumer concern over electric bills, public utility commissions are still weighing requests to wrap those costs into the rates that homeowners ultimately pay each month.

Smart meters provide a two-way communications link between homes and utilities. The most basic benefit is that utilities are notified immediately of any outages, avoiding the need for customers to call. Other potential benefits are more advanced: applications that would allow real-time prices that rise during periods of peak demand and fall as households turn out the lights at night. That would create an incentive to reduce demand during maximum stress on the electricity grid - in effect creating the equivalent of a new source of supply.

"We really applaud Congress for addressing technology beyond the meter because that's where we think the value really is," said John O'Donnell, a lobbyist for Xcel, which is funding a project in Boulder, Colorado, to demonstrate the usefulness of smart-grid technology. Among the possible applications that he envisions: "property that would be installed in peoples' homes to gauge how much electricity they're using on an outlet by outlet basis, on an appliance by appliance basis, really super cutting-edge stuff."

Congress approved the accelerated depreciation of smart-grid investments as U.S. economic woes deepened, raising questions about whether utilities will be willing to make investments. It isn't clear whether the new tax treatment will help overcome a reluctance to spend.

"I know that utilities will probably tighten up on capital spending," said Stephen Johnston, the chief executive of SmartSynch, which integrates cell-phone technology into electric meters. But he notes that his company's data-monitoring services operate on a public wireless network, so "we allow a utility to deploy smart-metering technology without spending capital on big network assets."

For the past several years, Congress has moved in baby steps to unlock the potential of a digitally-enhanced electricity grid. A 2005 law ordered utilities to begin offering rates that vary along with changes in a utility's costs for buying electricity at wholesale. A 2007 energy law authorized \$100 million a year for projects to demonstrate the effectiveness of smart-grid technology, but Congress never appropriated the funds.

"There's a lot more that we can and should be doing, and I'm hopeful that the next administration and the next Congress will have similar views on that," Kevin Kolevar, the U.S. Energy Department's assistant secretary for electricity delivery and energy reliability, said at a smart-grid conference last month. His own office has a budget with \$5 million for smart-grid technology out of a total \$100 million a year, "an amount that is really pretty small."

Supporters hope that congressional approval of accelerated depreciation for smart-grid equipment reflects a growing comfort level with the technology within the government. Duke has 16,000 smart meters in Charlotte, North Carolina, along with 7500 in South Carolina, as part of pilot programs that it is financing. The company aims to install 90,000 smart meters in Cincinnati 800,000 in Indiana - or its entire customer base in that state. Indiana and Ohio regulators are still reviewing whether to approve cost-recovery plans.

"State regulators have gotten comfortable with this, and in many cases are advocates," said Dan Delurey, executive director of the Demand Response and Advanced Metering Coalition, who company executives say was instrumental in persuading Congress to allow for accelerated depreciation. "This is still early, but there are a lot of applications in process as we speak. The general tone of the regulatory community is positive on this."

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